

The background features a stylized American flag with a blue field containing a pattern of white stars. A prominent arch of gold stars is centered in the upper half of the image. The text is overlaid on this background.

Welcome!

Credit Scoring
and
Sub-Prime Lending

What is Credit Scoring?

- It's the use of a statistical model to objectively evaluate all the credit information available in a single repository
- What is a repository?
- There are three repositories in the US:
 - Equifax: Beacon Score
 - TransUnion: Emperica Score
 - Experian (FKA: TRW): Fair Isaac Score (FICO)

What is a Credit Score?

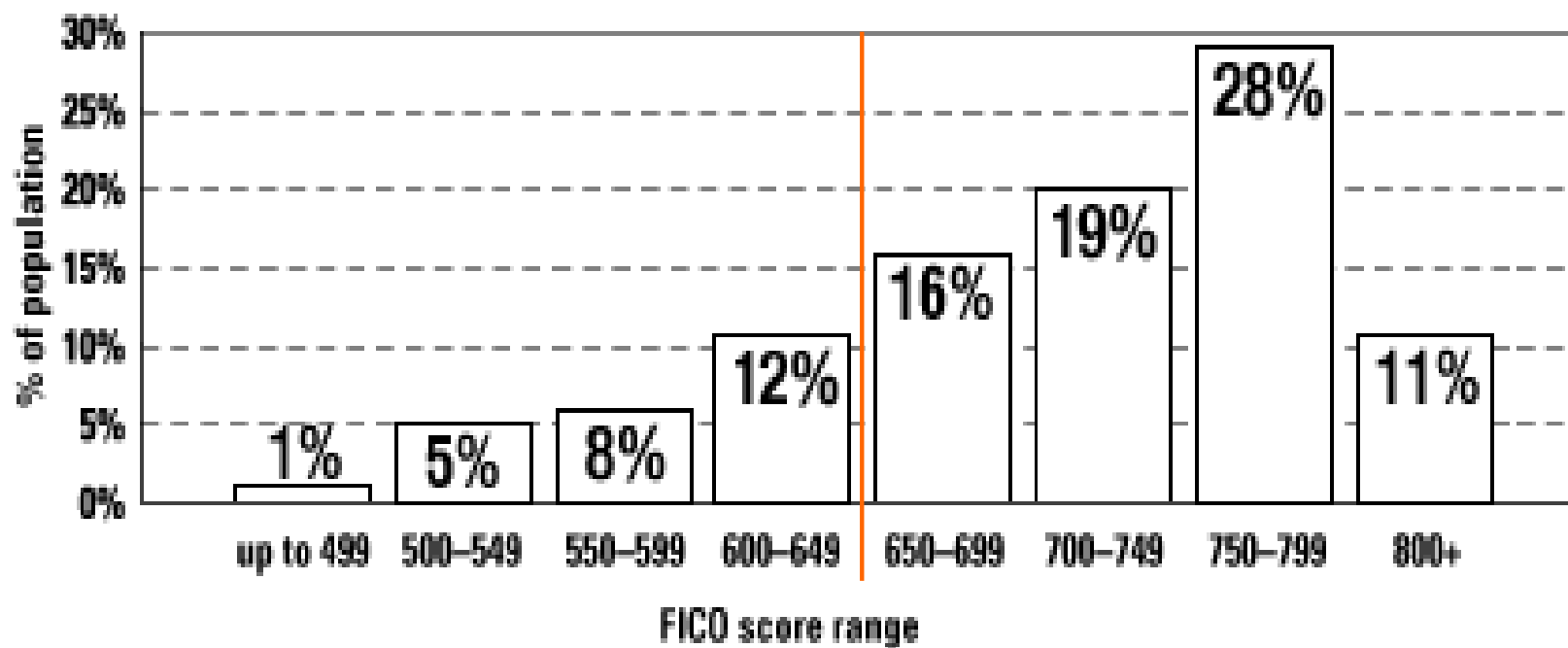
- A credit score can change daily. Anytime information is update on a credit report your score changes.
- Make sure your using the most recent versions.
- 5 key parts we will discuss that makes up your credit score.
- How will knowing this help me?

Your Credit Score Affects?

- Mortgage loans
- Homeowners insurance premium
- Car insurance premium
- Car loan rates
- Instant credit card approvals
- Employers- should I hire them or no?
- Mortgage insurance

Ranges of a Credit Score

National distribution of FICO scores



Each credit repository gives a score and all are different

- Why?
- Which one to use?
- What if it's a joint account?

Millions of Americans have Inaccurate Credit Scores

- December 17, 2003 Report by Consumer Federation of America and The National Credit Reporting Association showed...
- How to fix errors?
- Watch out for “Free” Credit Reports

How the Credit Score affects Loan Programs

660-850

620-659

600-619

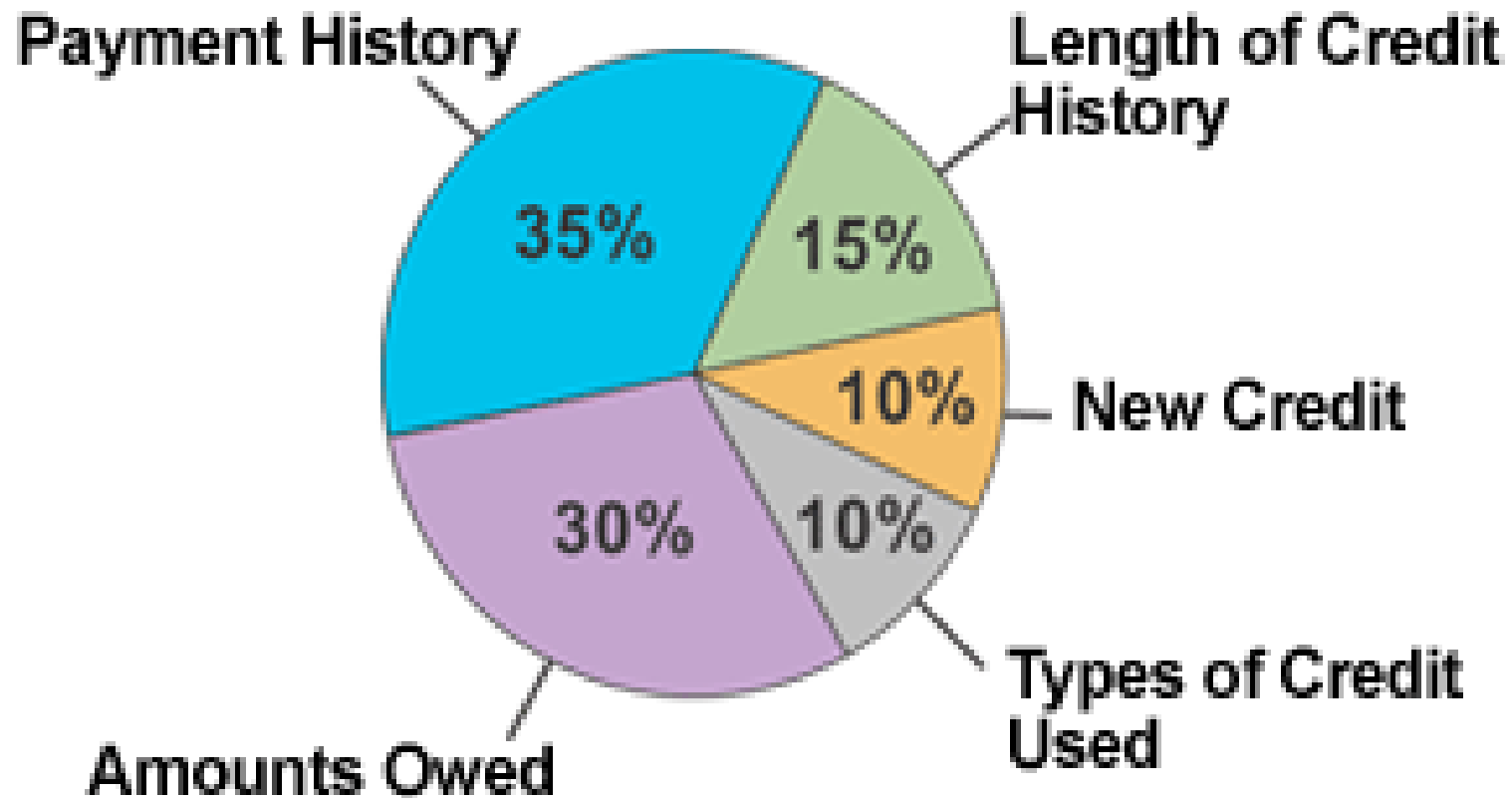
580-599

540-579

500-539

300-499

Top 5 Items Which Affect Your Credit Score



Top 5 Items Which Affect Your Credit Score

1. 35% How you pay your bills

- How often its late, how late it is and when was it late? The majority of focus is placed on last 2 years (most recent 11 months more sensitive with current lates most sensitive) Excluding BK and FC
- Example: True or False: 30 day late 4 months ago will hurt your score more than a 30 day late 3 years ago.
- Example: True or False: a current 30 day late will hurt your score more than a 30 day late 4 months ago
- Example: True or False: a few 30 day lates 4 months ago will hurt your score more than a 90 day 26 months ago

Top 5 Items Which Affect Your Credit Score

1. 35 % How you pay your bills *(continued)*

- Collections: Caution! (if old leave alone)
- Collections: if purchased by another collection company it will hurt score
- Collections: use date open
- Public records (judgments/liens/ bankruptcy etc)- same as bills. The severity and recently hurts score. (If its old leave it alone!)
- Public records: use date of last activity
- Stories of paying off collections or public records and score lowering?

Top 5 Items Which Affect Your Credit Score

2. 30% Credit Utilization

- The amount owed on all accounts
- Revolving only: amount of current balances in relationship to high credit limit Individually and collectively
- The percentage owed on open installment loans
- Amount owing on specific types of accounts

Top 5 Items Which Affect Your Credit Score

2. 30% Credit Utilization (continued)

- Do check your credit report annually and close any unused cards for security reasons
- Ideally do keep 4-6 accounts open
- Do use these accounts at least once every 6 months
- Do try to keep your balances at 30% of high credit limit
- Don't keep opening new credit cards and transferring all your balances into one large credit card
- Don't open numerous accounts simply to try to increase your score
- Don't close old accounts just for your credit score
- Don't increase your credit limit just to achieve the 30% target to improve your score (you're tempted to use it)

Top 5 Items Which Affect Your Credit Score

3. 15% Length of credit history

- Length of time account is open
 - Credit opened in the last 24 months viewed as a higher risk (risk increases if other negative factors)
 - Looks at the oldest time an installment account has been open (look at date open date on credit report)
 - Looks at the oldest time a revolving account has been open
 - Looks at the average age of all accounts
 - Remember: needs opened 6 months and used once in last 6 months

Top 5 Items Which Affect Your Credit Score

4. 10% Type of credit being used

- Number of bankcards you have
- Number of retail or department store cards you have
- Number of installment accounts you have
- Number of finance company loans you have
- Excludes mortgages
- What's the ideal number (of open accounts) to have?

Top 5 Items Which Affect Your Credit Score

5. 10% New credit/ Inquiries

- New credit means: inquiries but also how long have you had accounts, how many new accounts and what types all play a factor.
- Inquiries are a subset of new credit- yet the most notorious.
 - How many inquiries do you have?
 - Only consumer authorized inquiries count
 - Fact and myth of inquiries
- What about rate shopping for mortgages or autos?

How to Improve...

1. 35% How you pay your bills

- Pay your bills on time
- Look at the “windows”
- Any currently “late pays” pay current and re-score
- Confirm any recent lates are correct
- Leave old collections alone and why
- Leave old public records alone

How to Improve...

2. 30% Credit utilization

- Keep balances low vs. zero. The magic number is?
- If your credit recently new, don't open a lot of new accounts
- Utilize you cards at how often? (to count)
- Avoid “continual” balance transfers (double negative)
- Don't close all your unused credit cards
- Don't open unused credit cards to raise your score vs. balancing re-establishing with secured credit card

How to Improve...

3. 15% Length of Credit History

- Establish credit early in life
- If your credit history is relatively recent, don't open a lot of new accounts
- Never rely on your spouse for all your families credit
- Rotate usage of your credit cards
- Watch out closing accounts (common error)

How to Improve...

4. 10% Type of Credit

- Finance company accounts hurts your score.
Why?
- Watch out for 90 day same as cash
- Paying cash for everything?
- Apply and open new credit only as needed
- Have credit cards, but manage them responsibly
- FYI: closing out accounts doesn't remove them from your credit report

How to Improve...

5. 10% New Credit/ Inquiries

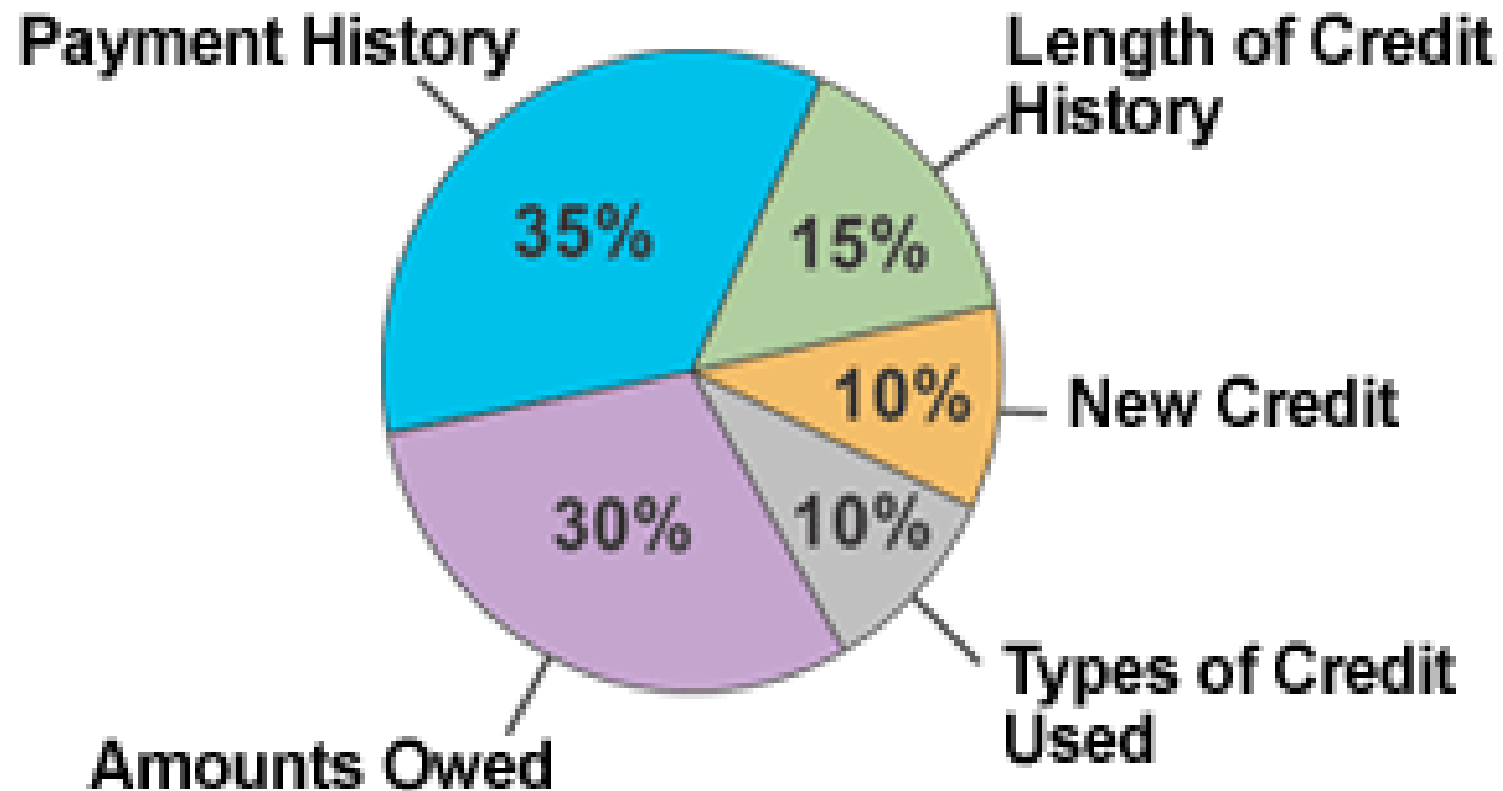
- Do marketing inquiries count?
- Best advise: have a old and strong credit file
- Repeated inquiries with same company
- Shopping for mortgages, auto etc (buffer period)
- Shop for mortgages and auto loans within specific time period
- Apply and open new credit only as needed
- Request your credit report directly
- New law in Affect

How to Dispute Your Credit

- Mistakes happen a lot!
- How mistakes happen
- Identify theft #1 in 2003
- Free dispute method
- Rapid Re-scoring method

Questions?

Graph of 5 key components





Alternative Lending Programs

How to sell more homes (stress-free!)
with sub-prime lending

Compare and Contrast

Sub-Prime Lending vs. Conventional vs. Government

- Collections /charge-offs
- Bankruptcy
- Foreclosure
- Mortgage insurance
- Seasoning of funds
- Qualifying ratios
- Interest rates
- Predatory lending
- Automated underwriting
- Level I, II, III

5 Goals for Today

- Explain how today's sub-prime is much different than sub-prime 10 years ago
- Show you customers who thought they could never buy a home...can really buy a home
- Buyers agent: How to save time, money and generate future business with sub-prime customers
- Listing agent: Get a "feel" of early warning signs to avoid last minute stress
- 5 ways to help eliminate stress when dealing with sub-prime customers and lenders

How to sell more homes (stress free) with sub-prime lending

- Sub-prime lending does not always mean bad credit
- Does not always mean small loans
- Does not always mean things will change at the closing
- Does not mean the customer is any different than you or me
- Does not mean they don't desire a new home
- Lets compare...

Definitions

- *Fannie Mae*: A privately owned corporation created by Congress in 1938 to support the secondary mortgage market by purchasing and selling conventional underwritten residential mortgages.
- *Freddie Mac*: A privately owned corporation authorized by Congress in 1970 to provide secondary mortgage market support for conventional mortgages. Originally set up to purchase mortgages from savings & loans.
- *FHA (Federal Housing Administration)*: A federal agency under the Dept of Housing & Urban Development that was formed to standardize home financing and stabilize the mortgage market. FHA's principal activity is insuring approved lending institutions against loan defaults. Lenders must in turn follow FHA credit guidelines and restrictions.
- *VA (Veterans Administration)*: A federal agency that provides services for veterans of the US Armed Forces. The VA guarantees lenders against defaults on loans made to qualified veterans.
- *Sub-prime*: Standardization is evolving & explain why?

Insert Compare & Contrast Chart

How to sell more homes (stress free) with sub-prime lending (aka: *Alternative Mortgage Lending*)

- 107% purchase program
 - 680+ credit score thus qualifies for conventional or FHA
 - Why 107? Three main reasons why
 - Pros and Cons (Mortgage insurance)
 - Actual example of executive who was transferred
 - Solution to a buying objection
 - Sub-prime doesn't mean bad credit

How to sell more homes (stress free) with sub-prime lending (aka: *Alternative Mortgage Lending*)

- 103% Purchase Program
 - 600 credit score
 - Why 103?
 - Pros and Cons (payoff debt)
 - Actual example last month
 - Solution to buying objection

How to sell more homes (stress free) with sub-prime lending (aka: *Alternative Mortgage Lending*)

- 100% purchase program
 - 580+ credit score
 - Why 100%?
 - Pros and Cons
 - Actual example of bank TD
 - Solution to a buying objection
 - Show you customers who thought they could never buy a home...can really buy a home (loyal, feel good stories)
 - 544 score in November to 611 in March

How to sell more homes with sub-prime lending (without stress!)

- 90% purchase program
- 500 credit score
- Pros and Cons
- How do they have 10% if can't pay?
- Actual example
- Solution to a buying objection

How to sell more homes with sub-prime lending (without stress!)

- Stated Income Programs
 - 100% LTV
 - S/E and W-2
 - Pros and Cons
 - Actual example
 - Solution to a buying objection

How to sell more homes with sub-prime lending (without stress!)

- Know who you're doing business with
 - Ethical & unethical companies
 - No magic wands in lending
- By knowing about credit scoring & programs requirements
- Ask if Conv-FHA-VA-Sub-Prime loan
- Get it in writing (Beware of the over-promise & impossible approval conditions)
- Know who you're doing business with
 - Keep a log of approval letters

Wrap- Up

- Add value by being a resource about credit scoring
- Industry trend: more sub-prime customers in the future
- NAR and MBA prediction of future mortgage rates
- Maximize your time with sub-prime
- Sell more homes and help more clients with sub-prime programs
- Should we do another class?
- O and A

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Thank you
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